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Report to the Chairman, Subcommittee
on Regulation, Business Opportunity,
and Energy, Committee on Small
Business, House of Representatives

July 1990

INTERNATIONAL TRADE

Export of Wood Products Under Federally Assisted Export Programs



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United States
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National Security and
International Affairs Division

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The Honorable Ron Wyden
Chairman, Subcommittee on Regulation,
Business Opportunity, and Energy
Committee on Small Business
House of Representatives

Dear Mr. Chairman:

In response to your request, we have reviewed exports of wood products under the Commodity Credit Corporation's (CCC) GSM-102/103 export credit guarantee programs and the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480). You specifically asked us to determine (1) how wood exports compare to exports of other agricultural commodities under these programs, (2) how credit guarantee periods for wood exports compare to credit periods provided for the other commodities, and (3) where the principal international markets are for wood products.

Results in Brief

Our review showed that:

- During the period 1986 through 1989, wood exports accounted for 4 percent, or \$556 million, of the total value of all exports under GSM-102. Wood products have never been considered for export under the GSM-103 intermediate-term credit guarantee program, and wood product exports under P.L. 480 have been very limited.
- Although there are exceptions, credit periods provided for wood exports under GSM-102 have generally been shorter than those provided for other agricultural commodities exported under the program. Wood exporters claim that the shorter credit periods provided for wood exports are unfair and prevent them from making sales in certain countries. U.S. government officials state that shorter credit periods are provided for wood exports to prevent the undermining of an international agreement that establishes guidelines for providing officially supported export credits. This agreement does not apply to agricultural commodities, but under the terms of the agreement, wood products are not considered agricultural commodities and, therefore, the agreement guidelines apply to these products.
- The principal international markets for wood products under the GSM-102 program are in Algeria, Iraq, Mexico, South Korea, and Tunisia.

Background

Since 1979, the United States has offered government-guaranteed credit to foreign buyers to expand exports of U.S. agricultural commodities. The major active programs are GSM-102 and GSM-103, administered through the CCC by the U.S. Department of Agriculture's Foreign Agricultural Service. These programs are designed to expand U.S. agricultural exports by stimulating U.S. bank financing of foreign purchases on credit terms. The programs are generally intended for sales to countries where guarantees are necessary to secure financing of the exports and where the purchasing country has the financial strength to provide a reasonable expectation that foreign exchange will be available to make payments as scheduled. Any agricultural commodity whose export furthers the CCC's long-range market development objectives is eligible for credit guarantees under the programs.

The GSM-102 program is a short-term export credit guarantee program for transactions with repayment periods of 6 to 36 months. The GSM-103 program is an intermediate-term credit guarantee program for transactions with repayment periods of 3 to 10 years. Currently, CCC is required to make available at least \$5 billion in credit guarantees annually under GSM-102, and not more than \$1 billion annually under GSM-103.

In addition to these credit guarantee programs, the U.S. Department of Agriculture and the Agency for International Development cooperatively administer a foreign food aid and market development program for agricultural products under P.L. 480. In recent years, the P.L. 480 program has been funded at about \$1.5 billion annually. About 5 million metric tons of agricultural commodities are exported each year through long-term credit sales and donations. Title I of P.L. 480 authorizes credit sales to be made at low interest rates with long repayment periods (typically 20-40 years) to developing countries buying U.S. agricultural commodities. Title II authorizes donations of commodities to relieve famine or other disasters.

Traditionally, GSM export credit guarantees and P.L. 480 loans have been made to help develop markets and meet food needs for lesser-developed countries. Exports of wood products under these programs have not been emphasized. To clarify that wood products are eligible for export under these programs, the Congress, in the Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418), specified that agricultural commodities eligible for export credit programs include wood and processed wood products.

Wood Product Exports Constitute Small Portion of GSM and P.L. 480 Sales

Wood and wood products—such as lumber, plywood, and pulp—are, by value, the largest agricultural crop in the United States. These products constitute about \$6 billion, or nearly 15 percent of all U.S. agricultural exports. However, they have accounted for a relatively small percentage of the total value of commodities exported under GSM-102. According to the CCC's records, total exports of wood and wood products under GSM-102 from the program inception through calendar year 1987 amounted to \$15.1 million, or about 0.15 percent of the approximately \$10 billion worth of commodities exported with GSM-102 credit guarantees. However, since 1986, exports of wood and wood products under the program have steadily increased as a percent of total GSM-102 supported exports, reaching 6.10 percent in 1989. (See table 1.)

Table 1: Comparison of Value of GSM-102 Wood Export Sales With Other Commodity Sales During Calendar Years 1986-1989

Dollars in millions			
Calendar year	Wood products	All commodities	Percentage share
1986	\$3.3	\$2,540.2	.01
1987	65.0	2,902.2	2.20
1988	230.7	4,264.4	5.40
1989	257.4	4,231.7	6.10
Total	\$556.4	\$13,938.5	3.99

Source: CCC database (Kansas City, Mo.).

About \$953 million worth of agricultural commodities were exported under the GSM-103 program during the period 1986 to 1989. However, wood products have never been exported under this intermediate-term credit guarantee program.

Exports of wood products under P.L. 480 have been very limited. About \$5 million worth of wood products were exported to Jamaica in 1989, and another \$5 million were approved in January 1990 for export to Costa Rica.

Wood Products Provided Shorter GSM Credit Periods Than Other Agricultural Commodities

Credit periods provided for wood and wood products under the GSM program have typically been limited to less than 2 years, while credit periods provided for most other agricultural commodities have been for 3 years or more. For example, agricultural commodities such as cotton, feed grains, oilseeds, protein meals, rice, and wheat have been provided 3-year credit periods under the GSM-102 program. Under the GSM-103 program, beans, breeder livestock, corn, feed grains, oilseeds, protein meals and concentrates, rice, semolina, table eggs, tobacco, vegetable

oils, and wheat and wheat flour have been provided credit periods of 4 to 7 years.

International Agreement Cited as Rationale for Shorter Credit Periods

Members of an interagency advisory council that advises CCC on GSM-102/103 credit guarantee allocations told us that they are opposed to offering longer credit periods for wood products because doing so would undermine internationally agreed-upon financing guidelines. This council, the National Advisory Council on International Monetary and Financial Policies (NAC), is responsible for coordinating the policies and practices of U.S. government agencies that make foreign loans or that engage in foreign financial, exchange, or monetary transactions. It is chaired by Treasury and is composed of representatives of the U.S. Export-Import Bank, the Federal Reserve, the Agency for International Development, the U.S. Trade Representative, and the Departments of State and Commerce. While the NAC serves in an advisory capacity, its positions have usually prevailed. Although program officials at Agriculture have considered expanding GSM support for wood exports, Agriculture has not challenged the NAC.

Providing wood product exports GSM-102/103 credit with terms longer than 2 years would place the United States in conflict with the Organization for Economic Cooperation and Development's (OECD) Arrangement on Guidelines for Officially Supported Export Credits.¹ This arrangement, often referred to as the "OECD Consensus," came into being in April 1978. The objective of this Consensus is to remove export credit subsidies as a determining factor in international trade. The terms of the Consensus cover most government-supported export credit with terms of 2 years or longer. While the Consensus specifically exempts agricultural commodities from its terms and conditions, it does not categorize wood products as an agricultural commodity. Therefore, any GSM-102/103 export credit for wood products is covered by the Consensus if it has a term of 2 years or longer. A problem arises because the terms of the GSM-102/103 programs are not consistent with Consensus requirements. For example, the Consensus limits officially supported credit to 85 percent of the export sale. However, the GSM-102/103 program provides credit guarantees for up to 100 percent of the export.

¹The OECD is an international organization of 24 industrialized countries, including the United States. The objectives of the OECD are to promote policies designed to achieve a rising standard of living in member countries and to expand economic growth and world trade among all countries.

Treasury's position is that if the United States provides longer credit terms for wood exports under the GSM-102/103 programs and does not conform to the terms of the Consensus, it will, in effect, be undermining the intent of the Consensus and opening the door for other countries to do the same. To prevent this situation, Treasury has tried to keep credits for wood exports from violating the Consensus by limiting the credit periods to less than 2 years. For example, many of the GSM-102 credit guarantees that would otherwise be covered by the terms of the Consensus are limited to a period of 720 days, i.e., 10 days less than 2 years.

Rationale Not Consistently Applied

Treasury's rationale for providing shorter credit periods for wood products is not consistently applied to all commodities eligible for GSM-102/103 credit that are not considered to be agricultural commodities under the Consensus. We found numerous examples of GSM-102/103 commodities that, according to officials from Treasury, the U.S. Department of Agriculture, and the U.S. International Trade Commission, are subject to provisions of the OECD Consensus but were not treated accordingly in terms of credit guarantees. Examples include the export of wool/mohair, cotton, hides and skins, leather, and furs. Even for wood products, application of the OECD Consensus was not consistent. We reviewed the GSM credit periods provided for each of these commodities during fiscal years 1986 through 1990 and found that the credit periods often exceeded 2 years and, therefore, should have been covered by the OECD Consensus. Ninety-five percent of those exceeding 2 years received guarantees for credit with a term of 3 years. For the 6 commodities, there have been a total of 117 credit guarantee allocations made available to purchasing countries since fiscal year 1985. Of the 117 allocations, 62 were provided a credit period of 2 years or longer. Wood products received credit terms exceeding 2 years in 17 of 49 cases. (See table 2.)

Table 2: GSM-102 Credit Terms for Commodities Covered by the OECD Consensus (Fiscal Year 1986 Through Fiscal Year 1990)

Commodity	Length of credit period	Times provided	Percentage
Wool/Mohair	Less than 24 months	0	0
	24 months & over	4	100
Cotton	Less than 24 months	6	16
	24 months & over	31	84
Hides & skins	Less than 24 months	6	38
	24 months & over	10	62
Wood products	Less than 24 months	32	65
	24 months & over	17	35
Leather	Less than 24 months	7	100
	24 months & over	0	0
Furs	Less than 24 months	4	100
	24 months & over	0	0

Source: Foreign Agricultural Service commitment reports for fiscal years 1986 through 1990.

U.S. government officials told us that prior to 1986, credit periods of 24-36 months were being approved for cotton, hides and skins, and other agricultural commodities exported under the GSM-102 program. According to these officials, in 1986, when the intermediate term (3 to 10 years) GSM-103 export credit guarantee program started, the NAC began closely reviewing and questioning the credit guarantee periods provided for specific commodities. The NAC agreed, however, to the continuance of 24-36-month credit periods for such commodities allocated to countries that had previously purchased them under these longer credit periods.

Some Wood Product Exporters Believe Shorter Credit Periods Affect Sales

We interviewed 15 exporters of wood products who had used the GSM-102 credit guarantee program. Most told us that in many instances, the shorter-term financing had not created a problem either for them or for the purchasing countries. However, three exporters said that the relatively short credit terms had resulted in some lost sales opportunities. For example, according to one exporter, Tunisia will not purchase wood or wood products without a minimum of 3-year financing terms. Similarly, another exporter said the government of the Yemen Arab Republic would purchase wood products only if financing terms of 4-10 years are allowed. According to domestic exporters, both countries are interested in purchasing U.S. wood products.

Principal GSM Markets for Wood Products

According to an Agriculture Department Foreign Agricultural Service Notice to Exporters dated March 23, 1990, 24 countries were eligible for the GSM-102 program for all commodities. Of those 24, 8 were provided allocations for wood products. (See table 3.)

Table 3: Allocations of GSM-102 Credit Guarantees for Fiscal Year 1990

Dollars in millions

Country	All commodities	Wood products
Algeria	\$675.0	\$95.0
Chile	35.0	0.0
Colombia	142.0	0.0
Ecuador	100.0	1.5
Egypt	200.0	0.0
El Salvador	24.0	0.0
Guatemala	20.0	0.0
Hungary	26.0	0.0
Iraq	500.0	31.3
Jordan	42.0	0.0
Kenya	6.0	0.0
Mexico	1,225.0	52.4
Morocco	10.0	0.0
Pakistan	180.0	0.0
Panama	2.5	2.5
Senegal	13.0	0.0
South Korea	548.0	10.0
Surinam	5.0	0.0
Trinidad & Tobago	45.0	0.0
Tunisia	37.0	0.0
Turkey	150.0	0.0
Venezuela	100.0	0.0
Yemen Arab Republic	12.0	0.0
Yugoslavia	40.0	2.5
Total	\$4,137.5	\$202.2

Source: Foreign Agricultural Service commitment report, March 23, 1990.

The same notice to exporters showed eight countries were allocated \$403.5 million of credit guarantees under GSM-103. The eligible countries were Algeria, Ecuador, El Salvador, Jordan, Morocco, Panama, Sri Lanka, and Tunisia. None of those countries received allocations for wood products under GSM-103.

Conclusions

Wood products are generally being provided shorter credit periods than other commodities exported under the GSM-102/103 programs. Wood products are generally being provided credit periods of less than 2 years under the GSM programs, while other commodities are being provided credit periods of up to 7 years. According to wood exporters, the short credit periods provided for wood products are unfair and are preventing export sales to certain countries that require longer credit periods.

The Treasury rationale for providing shorter credit periods for wood products appears to be valid but it is not being consistently applied to wood and several other commodities exported under the GSM-102 program. If the U.S. government is seriously concerned about undermining the OECD Consensus, it should apply its rationale for preventing the undermining of the OECD Consensus more consistently to all appropriate commodities. However, if the U.S. government believes that the treatment of wood products under the OECD Consensus should be the same as other agricultural commodities, the United States should seek agreement among the OECD countries to have wood products, and possibly other appropriate commodities, be considered as agricultural commodities under the Consensus and, therefore, exempt from Consensus guidelines.

Scope and Methodology

We interviewed 23 exporters of wood and wood products located in Alabama, Florida, Georgia, New York, Oregon, and Washington. Fifteen of them had used the GSM-102 or P.L. 480 programs. We examined the extent of their participation in the programs and discussed their experiences with them. We also obtained and evaluated their comments about program problems or suggestions for improvements. The exporters we interviewed accounted for 76 percent of the \$553 million of wood products sold under GSM-102 in calendar years 1987 through 1989.

To obtain a broader, industrywide perspective, we also interviewed representatives of 10 industry associations.

To determine the reasons for denying longer credit periods for wood products, we interviewed officials from the Export-Import Bank and the Department of Treasury and reviewed the OECD Consensus on export credits.

We reviewed CCC records on commodity exports under the programs and met with CCC officials to obtain information on wood export sales under the GSM-102/103 programs.

We conducted our work from February through July 1990 in accordance with generally accepted government auditing standards. As you requested, we did not obtain official agency comments on this report. However, we discussed the contents with cognizant agency officials, and their comments have been incorporated in the report as appropriate.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 14 days from the date of this letter. At that time, we will send copies to the Chairmen of the House and Senate Agriculture Committees and to the Secretaries of Agriculture and Treasury. We will also make copies available to others upon request.

Staff members who made major contributions to the report are listed in appendix I. If you have any questions regarding this report, I can be reached at (202) 275-4812.

Sincerely yours,



Allan I. Mendelowitz, Director
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